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FISCAL IMPACT STATEMENT

LS 6407

BILL NUMBER: HB 1185

NOTE PREPARED: Jan 5, 2013

BILL AMENDED:

SUBJECT: Sales Tax Holiday.

FIRST AUTHOR: Rep. Steuerwald

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides a Sales and Use Tax exemption each year beginning on the second Friday of August 2013, and August 2014, through the following Sunday (Sales Tax holiday) for the following items: (1) Clothing, if the sales price does not exceed \$125. (2) A school supply, school art supply, or school instructional material, if the sales price does not exceed \$15. (3) A computer or school computer supply, if the sales price does not exceed \$500. The bill incorporates the definitions of these items as set forth in the May 24, 2012, Streamlined Sales and Use Tax Agreement.

Effective Date: Upon passage.

Explanation of State Expenditures: This bill will increase the administrative costs of the Department of State Revenue (DOR). The DOR will need to amend Sales Tax forms and modify the Sales Tax processing system. It is estimated that the provisions of this bill can be implemented within the DOR's existing level of resources.

Explanation of State Revenues: *Summary* - This bill could reduce Sales Tax revenue by approximately \$15.8 M to \$23.5 M in FY 2014 and by \$16.1 M to \$24.0 M in FY 2015. Revenue loss from this bill depends on the volume of planned purchases of clothing, school supplies, and computers that are shifted into the three days in August because of the temporary Sales Tax exemption.

Sales Tax revenue is deposited as follows: 99.848% in the state General Fund, 0.123% in the Commuter Rail Service Fund (CRSF), and 0.029% in the Industrial Rail Service Fund (IRSF).

Impact on Funds		Low (in millions)		High (in millions)	
Fund	Distribution	FY 2014	FY 2015	FY 2014	FY 2015
General Fund	99.848%	-\$15.7492	-\$16.1019	-\$23.4332	-\$23.9579
CRSF	0.123%	-0.0194	-0.0198	-0.0289	-0.0295
IRSF	0.029%	-0.0046	-0.0047	-0.0068	-0.0070
Total	100.000%	-\$15.7732	-\$16.1264	-\$23.4688	-\$23.9944

Background Information - This bill provides a Sales Tax exemption for certain “back-to-school” items for three days in August. These items consist of clothing, school supplies, school art supplies, school instructional materials, computers, and school computer supplies.

Research on the impact of Sales Tax holidays on state revenue is the basis for the estimates in the table above. A panel data study by the University of Michigan examined the revenue impact on 13 states and the District of Columbia that implemented Sales Tax holidays from 1997 to 2007. This study suggests that a Sales Tax holiday as proposed in the bill could potentially result in a 2.8% to 4.1% decrease in state Sales Tax revenue for the month in which the holiday occurs. Indiana’s August 2012 Sales Tax collections were about \$573 M.

A Georgia State University study examined Georgia’s revenue loss due to Sales Tax holidays from 2003 to 2009 and found an even larger impact on sales tax revenue. The study found that the four-day back-to-school Sales Tax holiday similar to the one proposed in the bill resulted in an average revenue loss of 8.1% to 10.6% of the state’s otherwise expected monthly Sales Tax revenues.

Explanation of Local Expenditures:

Explanation of Local Revenues: Local revenues would decrease to the extent that a local unit receives funds from the Commuter Rail Service Fund or the Industrial Rail Service Fund.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Local units that receive Sales Tax revenue.

Information Sources: Cole, Adam, “*The Fiscal Impact of Sales Tax Holidays*”, May 16, 2009. Buschman, Robert D., “*Sales Tax Holidays and Revenue Effects in Georgia*”, March 2011. Global Insight, Indiana Statewide Forecast, December 2012. Indiana State Budget Agency, End-of-Month Revenue Report, November 30, 2012. U.S. Census Bureau, Profile of General Population and Housing Characteristics: 2010.

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